

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>South Haven Area Emergency Services Authority</u>	County Van Buren
Audit Date December 31, 2005	Opinion Date February 28, 2006	Date Accountant Report Submitted To State: March 21, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

South Haven Area Emergency Services Authority

**Financial Report
with Supplemental Information
December 31, 2005**

South Haven Area Emergency Services Authority

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Independent Auditor's Report

To the Board Members
South Haven Area Emergency
Services Authority
South Haven, Michigan

We have audited the accompanying basic financial statements of the South Haven Area Emergency Services Authority (the "Authority") as of December 31, 2005 and 2004 and for the years then ended. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the South Haven Area Emergency Services Authority as of December 31, 2005 and 2004 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the South Haven Area Emergency Services Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis purposes and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the other supplemental information. However, we did not audit this information and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

February 28, 2006

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South Haven Area Emergency Services Authority

Management's Discussion and Analysis

About the Authority

The Authority serves the City of South Haven and the townships of Casco, Geneva, and South Haven located within the counties of Allegan and Van Buren. The Authority was established in 1996 under the Michigan Urban Cooperation Act ("Act 7") as a public entity providing emergency and nonemergency fire and ambulance services within the Authority. Since January 1996, the Authority has responded to 15,614 calls for assistance and has seen or treated over 11,475 patients and 5,330 fires. The Authority is governed by a five-member board appointed by each Authority member council or board.

Mission Statement and Sources of Revenue

The Authority's mission is to preserve life, limb, and property through aggressive fire service programs and provide the highest quality medical care with pride, integrity, and courage. The Authority receives funding for its mission from each municipal member, a Van Buren County-wide ambulance millage, and user fees of the ambulance. User fees account for approximately 20 percent of the Authority funding; the remaining amount is provided from each member through taxation. Through the Authority agreement, member funding for fire services is based on the percentage of the Authority's total taxable value multiplied by the approved fire budget. For example, if a member has 50 percent of the Authority's total taxable value, that member pays to the Authority 50 percent of the approved fire budget. For ambulance services, funding is based on the percentage of the Authority's total population.

Condensed Financial Information

The following table represents condensed information about the Authority's financial position for the past two fiscal years. Net assets increased approximately \$250,000 during the year. Total net assets include the investment in capital assets. Investment in capital assets represents the capital assets held by the Authority, net of related accumulated depreciation.

South Haven Area Emergency Services Authority

Management's Discussion and Analysis (Continued)

	December 31	
	2005	2004
Assets		
Current assets	\$ 1,058,753	\$ 844,263
Property and equipment	<u>1,563,928</u>	<u>1,633,928</u>
Total assets	2,622,681	2,478,191
Liabilities		
Current liabilities	160,587	161,901
Long-term liabilities	<u>147,656</u>	<u>251,461</u>
Total liabilities	<u>308,243</u>	<u>413,362</u>
Net Assets		
Invested in capital assets	1,391,874	1,352,135
Unrestricted	<u>922,564</u>	<u>712,694</u>
Total net assets	<u>2,314,438</u>	<u>2,064,829</u>
Total liabilities and net assets	<u>\$ 2,622,681</u>	<u>\$ 2,478,191</u>

Operating Income and Expenses

The Authority has maintained a stable financial position during the year ended December 31, 2005. Operating income was sufficient to meet the current operating and nonoperating expenses. A recap of operating and nonoperating revenue and expenses for the past two fiscal years is presented below.

South Haven Area Emergency Services Authority

Management's Discussion and Analysis (Continued)

	Year Ended December 31	
	2005	2004
Operating Revenue		
Sales and charges for services	\$ 2,134,644	\$ 2,073,753
Federal grant	14,515	344
Total operating revenue	2,149,159	2,074,097
Operating Expense	1,909,412	1,837,728
Net Operating Income	239,747	236,369
Nonoperating (Expense) Income	(9,862)	7,078
Net Income	249,609	229,291
Net Assets - Beginning of year	2,064,829	1,835,538
Net Assets - End of year	<u>\$ 2,314,438</u>	<u>\$ 2,064,829</u>

Capital Improvements

During the year, the Authority's only capital purchase was a new vehicle for the executive director. The Authority has plans to purchase an engine/pumper, rebuild or replace fire station #2, and replace a 1993 ambulance during 2006.

Future Projections

Funding for the Authority from member municipalities remains stable. Reimbursement for ambulance services rendered, whereby a patient is transported but not treated at the hospital, will continue to be an increasing challenge in the future. As the medical profession progresses, fewer patients will need transport to a hospital after treatment. Also, the increasing inability of citizens to pay out of pocket for our services will increase as high-paying jobs give way to lower wages. Medicare provides only a small reimbursement for these services unless the patient is transported. These issues are beyond the Authority's scope, as are the increasing costs for health insurance and other employee/employer benefits.

Contacting the Authority's Management

This management report/discussion provides an overview of the current and prospective financial condition of the Authority's operations and physical assets. If there are questions concerning this report or if additional information is desired, please contact the executive director/fire chief at (269) 637-5151 or email rvanwynen@shaes.org.

South Haven Area Emergency Services Authority

Statement of Net Assets

	December 31	
	2005	2004
Assets		
Cash (Note 3)	\$ 567,057	\$ 661,275
Investments (Note 3)	427,140	125,419
Accounts receivable - Net of allowance for contractual adjustments of \$41,843 in 2005 and \$41,851 in 2004	44,198	46,164
Prepaid expenses	20,358	11,405
Capital assets (Note 4)	1,563,928	1,633,928
Total assets	2,622,681	2,478,191
Liabilities		
Accounts payable and other accrued liabilities	50,705	52,162
Capital leases (Note 5):		
Due within one year	9,882	9,739
Due in more than one year	12,172	22,054
Noncurrent liabilities:		
Due within one year (Note 6)	100,000	100,000
Due in more than one year (Note 6)	50,000	150,000
Accrued compensated absences	85,484	79,407
Total liabilities	308,243	413,362
Net Assets		
Invested in capital assets net of related debt	1,391,874	1,352,135
Unrestricted	922,564	712,694
Total net assets	<u>\$ 2,314,438</u>	<u>\$ 2,064,829</u>

South Haven Area Emergency Services Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2005	2004
Operating Revenue		
Fire services fees	\$ 1,630,538	\$ 1,558,189
Ambulance service fees	498,280	506,281
Federal grants	14,515	344
Miscellaneous	5,826	9,283
Total operating revenue	2,149,159	2,074,097
Operating Expenses		
Fire expenses	952,133	881,097
Ambulance expenses	957,279	956,631
Total operating expenses	1,909,412	1,837,728
Net Operating Income	239,747	236,369
Nonoperating Revenue (Expense)		
Interest earnings on investments	17,970	6,794
Interest expense	(8,108)	(13,872)
Total nonoperating revenue (expense)	9,862	(7,078)
Net Income	249,609	229,291
Net Assets - Beginning of year	2,064,829	1,835,538
Net Assets - End of year	<u>\$ 2,314,438</u>	<u>\$ 2,064,829</u>

South Haven Area Emergency Services Authority

Statement of Cash Flows

	Year Ended December 31	
	2005	2004
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,905,975	\$ 1,837,811
Cash payments to suppliers for goods and services	(506,538)	(454,132)
Cash payments to employees for services	(1,053,381)	(1,007,527)
Net cash provided by operating activities	346,056	376,152
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(38,676)	(111,075)
Principal payments on capitalized leases	(9,739)	(12,027)
Principal payments on long-term debt	(100,000)	(100,000)
Interest expense	(8,108)	(13,872)
Net cash used in capital and related financing activities	(156,523)	(236,974)
Cash Flows from Investing Activities		
Purchase of investments	(426,721)	(2,767)
Proceeds from maturity of investments	125,000	-
Interest earned on investments	17,970	6,794
Net cash provided by (used in) investing activities	(283,751)	4,027
Net Increase (Decrease) in Cash	(94,218)	143,205
Cash - Beginning of year	661,275	518,070
Cash - End of year	<u><u>\$ 567,057</u></u>	<u><u>\$ 661,275</u></u>

South Haven Area Emergency Services Authority

Statement of Cash Flows (Continued)

	Year Ended December 31	
	2005	2004
Reconciliation of Operating Income to Cash Flows from Operating Activities		
Operating income	\$ 239,747	\$ 236,369
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	108,676	113,850
Bad debts and contractual adjustments	245,150	250,247
(Increase) decrease in assets:		
Accounts receivable	(243,184)	(236,286)
Prepays	(8,953)	13,356
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	(1,457)	2,599
Accrued employee benefits	6,077	(3,983)
Net cash provided by operating activities	<u>\$ 346,056</u>	<u>\$ 376,152</u>

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Entity

South Haven Area Emergency Services Authority (the "Authority") is a joint venture of the City of South Haven, Casco Township, Geneva Township, and the Charter Township of South Haven, Michigan, and was created pursuant to Public Act 129, Michigan Public Acts of 1943. Its allowed purpose is to provide emergency services. The Authority currently provides fire rescue and ambulance services to these communities.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the South Haven Area Emergency Services Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these guidelines, there are no component units to be included in the financial statements.

Basis of Accounting - The accrual basis of accounting is used to account for the operations of the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Investments - Investments are recorded at cost, which approximates fair value due to the short maturity of the investments.

Accounts Receivable - Accounts receivable are due primarily from insurance carriers and individuals. Amounts included in accounts receivable are net of an estimated allowance for contractual adjustments.

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets are stated at cost at the date of acquisition. Major improvements and renewals are capitalized, while ordinary maintenance and repairs are expensed. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

Compensated Absences (Vacation and Sick Leave) - Full-time employees of the Authority are entitled to sick leave of one work day with pay for each completed month of service. The number of days that may be accumulated is limited to a maximum of 60 days. At retirement or death, these employees will be paid up to the maximum accumulated sick leave at a rate of 50 percent of base pay. Employees are not entitled to any payment if termination occurs prior to retirement or death. No liability was recorded for accrued sick pay at December 31, 2005 or 2004, as that amount cannot be determined. The maximum liability is \$138,568 and \$118,017, respectively.

Full-time employees are permitted an annual paid vacation of from 3 to 10 days depending upon seniority. An employee is allowed to accrue up to 30 days. The amount of liability recorded for accrued vacation pay at December 31, 2005 and 2004 amounted to \$85,484 and \$79,407, respectively.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts, certificates of deposit, and all other investments and securities in compliance with Public Act 20 of 1943, as amended. The Authority's deposits and investment policies are in accordance with statutory authority.

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2005 and 2004

Note 3 - Deposits and Investments (Continued)

The Authority's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Authority had \$624,463 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	January 1, 2005	Additions	Disposals	December 31, 2005	Depreciable Life - Years
Land	\$ 14,814	\$ -	\$ -	\$ 14,814	-
Land improvements	12,184	-	-	12,184	20
Building	222,669	-	-	222,669	40
Equipment	2,114,851	38,676	(28,000)	2,125,527	5-15
Total	2,364,518	38,676	(28,000)	2,375,194	
Less accumulated depreciation	(730,590)	(108,676)	28,000	(811,266)	
Undepreciated cost	<u>\$ 1,633,928</u>	<u>\$ (70,000)</u>	<u>\$ -</u>	<u>\$ 1,563,928</u>	

The total cost and accumulated depreciation of equipment under capital leases was \$90,000 and \$75,000, respectively, for 2005 and \$90,000 and \$67,500, respectively, for 2004.

Note 5 - Capital Leases

The Authority has entered into lease agreements as lessee for financing the purchase of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2005 and 2004

Note 5 - Capital Leases (Continued)

	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Equipment lease payable	<u>\$ 31,793</u>	<u>\$ (9,739)</u>	<u>\$ 22,054</u>	<u>\$ 9,882</u>

The future minimum lease payments for all capital leases included above as of December 31, 2005 are as follows:

	Present Value	Amount Representing Interest	Total Minimum Lease Payments
2006	\$ 9,882	\$ 324	\$ 10,206
2007	10,027	179	10,206
2008	<u>2,145</u>	<u>31</u>	<u>2,176</u>
Total	<u>\$ 22,054</u>	<u>\$ 534</u>	<u>\$ 22,588</u>

Note 6 - Long-term Debt

Long-term debt activity can be summarized as follows:

	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Equipment loan payable	<u>\$ 250,000</u>	<u>\$ (100,000)</u>	<u>\$ 150,000</u>	<u>\$ 100,000</u>

Annual debt service requirements to maturity for the above debt are as follows:

	Principal	Interest	Total
2006	\$ 100,000	\$ 4,875	\$ 104,875
2007	<u>50,000</u>	<u>975</u>	<u>50,975</u>
Total	<u>\$ 150,000</u>	<u>\$ 5,850</u>	<u>\$ 155,850</u>

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2005 and 2004

Note 7 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all of the above claims. The Authority was self-insured for chiropractic claims up to a maximum of \$500 per family per year. This program ended during 2004.

Note 8 - Defined Benefit Pension Plan

Plan Description

The Authority participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the Authority. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the System for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution from all employees of 8 percent of payroll.

For the year ended December 31, 2005, the Authority's annual pension expense of \$33,524 for the System was equal to the Authority's required contribution. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent, (b) projected salary increases of 4.5 percent per year, compounded annually, 3 percent to 4 percent attributable to inflation, and (c) additional projected salary increases of 4.5 percent to 12.9 percent per year, depending on age, attributable to seniority/merit. The actuarial value of the System's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the last actuarial valuation, was 30 years.

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2005 and 2004

Note 8 - Defined Benefit Pension Plan (Continued)

Three-year trend information as of December 31 follows:

	Fiscal Year Ended December 31		
	2003	2004	2005
Annual pension costs	\$ 24,809	\$ 29,316	\$ 33,524
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 9 - Postemployment Benefits

The Authority provides health care benefits and other benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, no retirees are eligible. The Authority includes pre-Medicare retirees in its insured health care plan, for which the participant is required to contribute one-half of the monthly premiums. The Authority will provide Medicare supplemental insurance coverage for retirees eligible for Medicare, but the retirees must pay 100 percent of the premiums to the Authority one month in advance. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. There were no amounts paid or due during 2005 or 2004.

Note 10 - Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

Other Supplemental Information

South Haven Area Emergency Services Authority

Other Supplemental Information Pension System Schedule of Funding Progress Year Ended December 31, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/00	\$ 1,234,594	\$ 1,204,446	\$ 30,148	103.0	\$ 582,130	-
12/31/01	1,412,940	1,580,879	(167,939)	89.0	633,132	27
12/31/02	1,571,107	1,810,148	(239,041)	87.0	665,165	36
12/31/03	1,770,399	2,033,048	(262,649)	87.0	632,196	42
12/31/04	1,954,676	2,404,642	(449,966)	81.0	672,305	67

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
12/31/01	12/31/00	\$ -	100.0
12/31/02	12/31/01	-	100.0
12/31/03	12/31/02	24,809	100.0
12/31/04	12/31/03	29,316	100.0
12/31/05	12/31/04	33,524	100.0

Actuarial cost method Entry age

Amortization method Level percent

Amortization period (perpetual) 30 years

Asset valuation method 5-year smoothing of market value starting at 12/31/93

Actuarial assumptions:

Investment rate of return	8.0%
Projected salary increases	4.5% - 12.9%
Includes inflation at	4.5%
Cost of living adjustments	None

To the Authority Board
South Haven Area Emergency
Services Authority
South Haven, Michigan 49085

In planning and performing our audit of the financial statements of South Haven Area Emergency Services Authority (the "Authority") for the year ended December 31, 2005, we considered the Authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

Financial Overview

During the fiscal year ended December 31, 2005, the Authority experienced growth in net assets. Revenues exceeded expenditures by \$249,609. We commend the board for their planning and budgeting. While many municipal entities continue to experience difficulties during these uncertain times, the Authority has positioned itself well for handling potential adverse circumstances with ending net assets of approximately \$2,300,000.

Segregation of Duties

Control over cash receipts transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts, records cash receipts, prepares bank deposits, makes bank deposits, receives bank statements, and then reconciles the statements. However, at this time, management feels that it is not cost effective to add personnel.

Budgeting

The Authority's budget was not amended during the year to reflect amounts that would be spent for equipment, including equipment that would be purchased with grant money. In order to conform with the Budgeting Act, the Authority should amend the budget to reflect expected expenditures throughout the year.

To the Authority Board
South Haven Area Emergency
Services Authority

In addition, the Authority does not budget for depreciation expense. The Authority's accounting personnel compute and record depreciation; therefore, the information would be available for the Authority to include a depreciation estimate as a budgeted line item.

Implementation of these budgeting suggestions should allow the board to have a better idea of the Authority's true financial position.

Board Approval of Expenditures

During our testing of cash disbursements, we noted one month in which the expenditures listing did not match the board-approved total of expenditures. We recommend that this listing be reviewed for accuracy on a monthly basis and agreed to the board-approved minutes for the previous month.

Retiree Health Care Benefits

The Governmental Accounting Standards Board released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

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This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB No. 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Therefore, the Authority will be required to implement the pronouncement in the fiscal year beginning January 1, 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months' lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates. We are in the process of accumulating a list of actuaries who are prepared to perform these valuations.

We highly recommend that the Authority contract with an actuary for this valuation. However, due to the size of the Authority and the fact that there are less than 100 participants, there is an alternative method that may allow the Authority to estimate the liability without incurring the cost of an actuarial valuation. We can provide a template for this alternative method of calculating the liability. Please contact us if you are interested in learning more about this alternative method or reviewing this template, or if you have other questions about GASB No. 45.

We sincerely thank you and appreciate the courtesy and cooperation extended to us by you and members of the Authority during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Plante & Moran, PLLC

February 28, 2006